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SENSITIVE
SIPDIS

AF/S FOR B. WALCH
DRL FOR N. WILETT
ADDIS ABABA FOR USAU
ADDIS ABABA FOR ACSS
STATE PASS TO USAID FOR J. HARMON AND L. DOBBINS
STATE PASS TO NSC FOR SENIOR AFRICA DIRECTOR MICHELLE GAVIN
TREASURY FOR D. PETERS
COMMERCE FOR ROBERT TELCHIN

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SUBJECT: ZIMBABWEAN BUSINESS LEADERS SEEK CREDIT NOT
ASSISTANCE

SUMMARY

11. (SBU) Zimbabwean business leaders briefed Congressional delegation Payne on May 31 on challenges facing their respective industries. Commonalities from the presentations included the need for access to international credit lines, improved local governance, and stable delivery of utilities. In contrast to meetings with GOZ officials and other sectors of Zimbabwe's civil society, these business leaders were not asking for foreign aid or budgetary assistance, but rather the opportunity to access credit and markets, and compete on a free-market basis in a normal business environment. Help from the USG in these areas would go a long way in stimulating Zimbabwe's economic recovery. END SUMMARY.

Local Businesses Seek Level Playing Field

12. (SBU) On May 31, a Congressional delegation led by Representative Donald Payne, Chairman of the House Subcommittee on Africa and Global Health, met with business leaders in Harare to discuss the state of industry and the challenges it is facing. Jeremy Youmans, Finance Director of the leading clothing manufacturer Paramount Group and Chairman of the Zimbabwe Clothing Manufacturers Association, discussed his company's lack of access to credit for trade finance and for re-capitalization, as well as poor public utility service. He also explained that Zimbabwe's exclusion from the African Growth and Opportunity Act (AGOA) shut the textile and apparel sector out of the U.S. market, whereas other regional competitors)- including Chinese firms that had bought South African garment manufacturers -- benefited from their AGOA membership. (NOTE: Zimbabwe is the only country in Southern Africa not eligible for AGOA. END NOTE.)

Youmans also lamented Zimbabwe not having access to the USAID Trade Hub in Gaborone or to AGOA trade fairs.

13. (SBU) Youmans was nevertheless optimistic and stressed the value creation that garment manufacturing brought developing countries -- Zimbabwe in particular. He said that the "cotton chain" or value stream leading from cotton growers to garment producers added 938 percent value to the economy. Zimbabwe had traditionally captured that entire chain as cotton is grown, made into yarn, dyed, and then manufactured and cut into completed garments here. However, since 2000, capacity in textiles in Zimbabwe has fallen by two-thirds and by over half in clothing manufacturing. Youmans was adamant that his business did not need assistance, just market access and the opportunity to produce in highly efficient large volumes.

Indian Firms Undercutting Cargill

14. (SBU) Priscilla Mutembwa, Managing Director of Cargill Cotton Zimbabwe, was discouraged by the lack of regulation QCotton Zimbabwe, was discouraged by the lack of regulation and rule of law in the cotton-growing sector in Zimbabwe. Cargill -- the largest U.S. firm in Zimbabwe -- provides small-scale outgrowers with fertilizer and seed, and in turn, the farmers sell their crop via a contract at a set price to Cargill. However, farmers side-market their crop to large Indian firms that are able to offer these farmers two to three times that price because they did not provide farmers

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with inputs. It is not cost effective for Cargill to pursue small farmers for breach of contract. Mutembwa also lamented the collapse in government-funded extension services to small growers, and the need to introduce Bio-technology cotton seed in Zimbabwe to improve yield.

Micro-Finance Sector Drying Up

15. (SBU) Virginia Sibanda of Micro King, a provider of micro-finance loans, said the number of micro-finance institutions had dried up from 358 to only six remaining firms in Zimbabwe. This has had a dramatic effect on poor and rural communities that cannot access other types of loans. Sibanda stressed the need to resuscitate the local micro-finance firms with the help of larger and long-term viable international financial institutions. She called for a shift in donor focus from humanitarian aid to economic empowerment by accessing capital at market rates.

Zimbabwe Not the Same Country

16. (SBU) Kumbirayi Katsande, President of the Confederation of Zimbabwe Industries (CZI), was positive about the new government's attitude towards the business sector. He said government leaders were listening to industry and incorporating input into monetary and regulatory policy. His vision was to raise Zimbabwe's productive capacity from the current 30 percent to 50 percent in the next 12 months, but recognized that good governance would be critical. (COMMENT: Some observers say capacity utilization is still under 20 percent. END COMMENT.) Governance needed to be addressed via the constitution drafting process that began recently. Katsande concluded by stating that Zimbabwe was "not the same country it was six months ago."

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Governance and Capital Also Needed in Mining...

¶7. (SBU) The mining sector was represented by Greg Sebborn, a member of the board of directors of Zimbabwe's largest platinum mining firm, Zimplats, as well as consultant to African Consolidated Resources (ACR), the U.K.-listed firm that lost its diamond mining rights in Chiadzwa to the government. Sebborn reinforced the issue that Zimbabwe had the wherewithal to independently raise its economy through the country's diverse mineral wealth, but concern about governance was inhibiting investment.

¶8. (SBU) Security of tenure in mining needed to be established so international firms would feel confident about injecting capital to refurbish equipment and expand operations. He spoke about vagaries surrounding indigenization requirements that aim for local investors to own a majority stake in businesses. He also mentioned that the GOZ flouted mining titles, which was likely a reference to the nationalization of ACR's diamond claim in 2006.

...Tourism

¶9. (SBU) Shingi Munyeza, CEO of leading Zimbabwean hotelier,
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African Sun, and chairman of the Zimbabwe Tourism Authority (ZTA), discussed how the sector could quickly return to the 16 to 20 percent growth rate achieved in the late 1990s. Zimbabwe's abundant wildlife and natural beauty gave it substantial tourism resources. However, perception was the culprit of the freefall in tourism, according to Munyeza. He said the tourist perception of Zimbabwe had become focused on security problems, moral objections, cholera concerns, human rights abuses, and bad governance. These problems had to be addressed by good governance and by marketing the changes occurring in the country. Additionally, Zimbabwe needed capital to improve the delivery of utilities, most importantly supplying the country with stable electricity supplies.

...and Retail Sectors

¶10. (SBU) The retail sector is being hurt by a lack of discretionary income in what was formerly the middle class, according to Themba Ndebele, CEO of the retail chain Truworths and Vice President of the Retail Association of Zimbabwe. Ndebele referred to Zimbabwe as a subsistence economy where people only had sufficient income to put food on the table. Government has always been the largest employer in Zimbabwe, and civil servants traditionally accounted for 40 percent of consumer spending. However, the USD\$100 per month allowance to civil servants is insufficient to allow for discretionary spending. Retailers also require access to international trade finance because local banks are unable to provide any capital. This will allow retailers to source foreign products and raw materials at competitive prices which will facilitate exports and create savings they can pass on to local consumers.

COMMENT

¶11. (SBU) The business representatives appeared upbeat and determined to drive Zimbabwe's economic recovery if given the chance. Refreshingly, they were not seeking assistance from the U.S., but merely access to capital at competitive rates and access to markets. They also recognized that Zimbabwe's inclusive government held the responsibility for improving the regulatory environment, raising the country's international image, and boosting the delivery of essential utilities. Any support that the USG can provide to the

business sector directly, whether in the form of credit guarantees, assistance to business associations in bolstering their lobbying ability, or improved access to market information for exports, will certainly be seized and used to stimulate the economy. END COMMENT.

¶12. (U) This cable has not been cleared by Congressman Payne. END NOTE.

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